Distr.
GENERAL

GC.7/12
IDB.17/11
2 June 1997

United Nations Industrial Development Organization

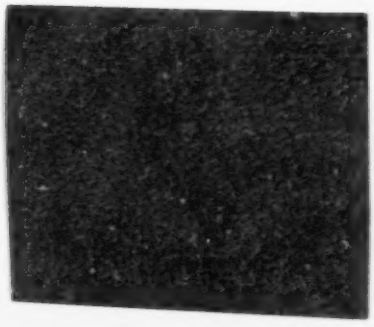
ORIGINAL : ENGLISH

GENERAL CONFERENCE

Seventh session
Vienna, 1-5 December 1997

Industrial Development Board

Seventeenth session
Vienna, 23-27 June 1997
Item 11 of the provisional agenda



PRIVATE SECTOR DEVELOPMENT

Report by the Director-General

Summary

Provides information on activities of the UNIDO programme for private sector development that have taken place since the sixth session of the General Conference.

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	CONTEXT	2 - 9	2
II.	CONCEPTUAL WORK	10 - 17	3
III.	FIELD OPERATIONS	18 - 28	3
IV.	NETWORKING	29 - 35	5
V.	WORKSHOPS	36 - 37	5
VI.	MANAGEMENT TRAINING	38 - 39	5
VII.	ACTION REQUIRED OF THE BOARD	40	6

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

V.97 24146 (E) (a:\1997\pmo 4)

Distr.: 6 June 1997

Introduction

1. In its resolution GC.6/Res.9, the General Conference requested the Director-General, in the implementation of the UNIDO programme for private sector development, industrial restructuring, rehabilitation and modernization, to carry out a wide spectrum of activities. These activities range from strengthening advisory services, exploring the feasibility of regional network programmes and to take duly into account the need for a more vigorous private sector development in the implementation of the Second Industrial Development Decade for Africa. The present document is submitted in compliance with paragraph 2 of resolution GC.6/Res.9, in which the Director-General is requested to report on the implementation of that resolution to the seventh session of the General Conference through the Industrial Development Board.

I. CONTEXT

2. Nearly all countries recognize the role of the private sector and of competitive markets in efficient resource allocation and in generating national income in a globalized world economy. The ability to compete in national as well as international markets is the hallmark of a successful private enterprise and the paramount prerequisite for sustainable economic development.

3. The changed emphasis in development strategies—from reliance on public sector manufacturing and import substitution to private sector entrepreneurship and open economies—means a radical shift in the role of government agencies in many developing countries and countries with economies in transition. Their number will decline, and the size of those that remain will decline, but their new task to support a viable and sustainable private sector will be ever so important.

4. The countries with economies in transition are confronted with special problems in this respect. Decision makers are unaccustomed to rapid economic change and the need to be flexible and innovative. Government agencies are not prepared for partnerships with an independent business community and trade unions. There is a great deal of uncertainty about the most effective way to handle privatization. The industrial information system, based on statistics on material products, can no longer be used; it must be replaced by a system based on value added. Commerce with other countries must be reoriented to a multilateral base where price, quality, reliability, and after-sale service reign supreme.

5. The reorientation of government agencies requires several stages of action. First, overall responsibilities must be established. Branch-specific ministries (heavy and light industry, for example) are impractical in a market economy. Relationships among key ministries must be re-worked to correspond to new demands on the public sector as a facilitator and supporter rather than as an economic agent. Long-term strategic thinking will replace rigid planning. This requires a capacity for monitoring global industry and trade trends. Small- and medium-scale firms will require policy support, whereas direct involvement in production by the public sector through often large public enterprises will largely disappear through a multitude of privatization schemes. At times, a special transitional agency is required to handle the privatization. Management responsibilities in what remains in the public sector must be redefined. Different roles demand different skills and mentality. Externalities in the market-place must be monitored and controlled. A dialogue between all the stakeholders must be developed, and institutionalized in one form or another.

6. UNIDO support to the development of the private manufacturing sector focuses on three levels: government policy-making; institutional capacity-building; and entrepreneurial and technological capability. It reinforces training in management and decision-making and it assists in the elaboration of national and regional policies to contribute to the fostering of a conducive business climate.

7. The scope of the Organization's assistance is determined by demand for its services from developing countries and countries with economies in transition, the supply capacity of UNIDO, and the availability of financial resources. Activities are focused on:

(a) Services in support of industrial development strategies, policies and programmes, as well as related institution-building;

(b) Capacity-building that concentrates on increasing the ability of (i) Governments and regional bodies to formulate and implement industrial strategies, and (ii) private sector organizations to deliver services to industry and participate in the national dialogue on industrial and regional policy.

8. The main services offered by UNIDO are related to: industrial policy formulation and implementation; interactive policy formulation arrangements; regional development; seminars on the functioning of market economies; industrial restructuring; organizational enhancement of government agencies; industrial estates; science and technology parks; export processing zones; and management training.

9. All through the biennium, special emphasis has been placed on a more vigorous private sector develop-

ment in Africa. Significant initiatives and projects are reflected in the sections below.

II. CONCEPTUAL WORK

10. To further develop its approach to private sector support, and to adapt its operational activities in this area, UNIDO undertakes conceptual work that takes the form of internal seminars, participation in appropriate events organized by others, occasional analyses and papers, and publications.

11. The overall approach towards enabling both Governments and private sector organizations to function in their new roles in a competitive and open economy and to engage in a policy dialogue has been described in a publication entitled *Interactive policy formulation*. This publication also functions as a manual and as a guideline to develop required capacity-building support projects in the public and private sector.

12. UNIDO has developed a concept for regional industrial development agencies—supportive, autonomous institutions that stimulate local interaction and networking, and provide access to market information and technological know-how. A paper on regional industrial development authorities was presented at the Economic Forum for the Regions of Europe for Economic Cooperation, Security and Sustainable Development, sponsored by the Council of Europe. A project concept on "rebuilding nations: Stimulating regional and local industrial development in transitional economies", was elaborated and submitted to the United Nations Development Programme (UNDP) for consideration. The concept is being considered for financing to enable the launching of a joint UNIDO/UNDP programme on regional development in countries with economies in transition.

13. The Vietnamese Ministry of Planning and Investment, with the support of UNIDO, developed a decision-making tool to monitor the Government's impact on the course of industrial development in a market system by means of tariff and fiscal incentives.

14. In 1996, UNIDO published *Export processing zones: Principles and practice*. The document has been distributed to regional development offices, industrial organizations and governmental agencies, among others, in developing countries and countries with economies in transition. Work has begun on the development of a system for (self) assessment, quality improvement and certification of science parks (called the AQC programme). Linked to this programme are specially designed programmes for knowledge development and training, and a handbook containing guidelines for the creation and operation of science parks.

15. Throughout 1995 and 1996, UNIDO commissioned a series of studies on industrial estates to form the base for a new publication entitled *Industrial estates: Principles and practice* that will be published in 1997. Among concrete projects under the category of industrial estates are drafting the law on free economic zones under which the Sumgait Special Economic Zone will be constituted, support to Yemen Free Zones Development, and a feasibility study of an industrial free zone in Benin.

16. A document entitled *Recent experiences with alternative forms of privatization: Case studies and a synthesis with a focus on the role of Government* was published to illustrate what specific objectives, in addition to turning over assets to the private sector, can be achieved through or in connection with an act of privatization; what external, macroeconomic and other conditions are critical for the success of privatization; and what macroeconomic conditions have to prevail before privatization itself and its various associated objectives can be expected to be achieved.

17. In cooperation with a commercial publisher, a book was edited and published by UNIDO entitled *Industrial economics for countries in transition*. This conceptual work builds on empirical evidence accumulated during UNIDO work in Eastern Europe and in the Asia and Pacific region.

III. FIELD OPERATIONS

18. UNIDO also undertakes a number of advisory services and other projects, in cooperation with government agencies and often private sector organizations, to lend support to the development of a strong and sustainable private sector in recipient countries. Such services and projects aim at creating an enabling environment for industrial development in general and regional development in particular. A fact-finding situation analysis coupled with conceptual work at the outset, the involvement of the stakeholders in all phases, and the creation of a true feeling of ownership are key features in all such operations. Sustainability is the aim.

19. After the successful completion in 1995 of Phase 1A of a project to restructure and revitalize the Kaliningrad region of the Russian Federation, phase 1B was embarked upon. In this phase, the strategies developed will be implemented and practical programmes for the restructuring of selected industrial enterprises will be elaborated. A number of training workshops for managers

are being held. A new industrial policy for the region will be drawn up and a regional development agency will be established to implement the policy.

20. The primary objective of the support programme for the industrial development of the Sumgait region of Azerbaijan (phase II) is to create an environment conducive to industrial regeneration and development of the industrial city of Sumgait through direct foreign investment while satisfying the demands of domestic investors. Strong interest in the project has also been shown by UNDP, which is funding the project, and a number of donor countries as well as from other countries in the Caucasus region. Thorough studies of industrial development possibilities and investment opportunities have been carried out and the required legislation for a special economic zone has been drafted and passed the first reading in parliament. The Sumgait Development Agency is being set up and will be inaugurated in June. An environmental programme is being prepared.

21. UNIDO is providing high-level advisory services to the Government of the Republic of Moldova on the transforming of that country into a market economy. A strategy for the development of the private sector has been developed and, based on this, a new industrial policy was drafted and discussed at a round table meeting with participation from the Government, UNIDO, the World Bank and representatives from neighbouring countries.

22. The Southern African Development Community (SADC) Secretariat asked UNIDO to participate in a study on industrial development in the region, focusing on the harmonization of industrial policies, reducing intra-trade imbalances, and improving the competitiveness of the manufacturing firms in the SADC region.

23. The UNIDO CompStrat* method, developed by UNIDO and the Instituto Tecnológico y de Estudios Superiores de Monterrey, Mexico, has been used to enhance the competitiveness of certain industrial branches in Costa Rica. The method is based on a cluster analysis using enterprise-level data, and includes holding a series of workshops. The CompStrat* software generates an industry profile that describes the attractiveness of the industrial branch in question, its competitive position, and the arena in which the enterprises must compete. In the end, the individual firms participating in the entire process are provided with specific strategies to enhance their competitiveness. A similar approach is now under way for Panama.

24. In Côte d'Ivoire, UNIDO assisted the Government in thoroughly revising the existing industrial master plan to account for the recent devaluation of the FCFA and the changed position of the country's export commodities. The analyses will provide a review of the competitiveness of the major industries and constitute the basis for the development of market-oriented instruments to strengthen governmental capacity to service the private sector.

25. The Organization has several ongoing programmes that contribute significantly to overall efforts to assist in the development of competitive, sustainable private sectors in developing countries and countries with economies in transition. The UNIDO high-impact programmes for development of entrepreneurship for women directly addresses the problems and constraints faced by women entrepreneurs with the objective of improving their competitiveness. The clients of this programme include Governments that adopt programmes to support the economic role of women in the development process, including women's entrepreneurship, and local institutions that want to strengthen their capacities to provide the services required by women entrepreneurs.

26. Programmes—all are country- and industry branch-specific—have been formulated for Ethiopia and Mali; in the latter country, a project is already under way (see also document GC.7/8-IDB.17/3, para. 8). New ones, always beginning with a preparatory mission and a needs assessment, and the establishment of necessary partnerships with other, concerned United Nations agencies and donors, have been initiated in Côte d'Ivoire, Morocco, Senegal and Zimbabwe. In China, the township and village enterprises, small- and medium-scale collective businesses run by individuals and/or local authorities, have gained special importance in the economic readjustment programme of China. A large number of women entrepreneurs and managers work in these enterprises. UNIDO has launched a tailor-made training programme through which modern management techniques are taught, thus helping women to adapt to economies that are changing towards increased private ownership and initiative.

27. Under the training programme for women entrepreneurs in the food-processing industry, there are two ongoing projects in Africa — in the United Republic of Tanzania and in Botswana. Building on the successful, initial African model, new versions have been adapted for Latin America and Asia and projects under this programme are now ongoing in Guatemala, Honduras, Nicaragua and Viet Nam.

28. A new thematic programme concept called women entrepreneurs for industrial growth has been developed. This programme aims at a direct impact on the integration of women into industrial development, on the development of the small-scale industrial sector, as well as indirectly on poverty alleviation. Under this programme, there are current projects in Kenya and the United Republic of Tanzania.

IV. NETWORKING

29. In 1996, UNIDO, in cooperation with the World Bank and the Economic Commission for Africa, considered the possibility of establishing a privatization network for Africa. Demand was expressed and in November 1996, a conference was organized to create the African Privatization Network (APN).

30. The Network is expected to stimulate privatization in the region by allowing the privatization agencies themselves to determine the type of technical assistance they require. The assistance would then be rendered and it is ultimately expected to develop a region-specific model for privatization. Technical assistance activities would eventually include the following: the organization of technical workshops for middle-level privatization agency managers; publication of material on issues of common interest; sharing and eventual translation of legislation or other documentation of interest to other countries; establishment and maintenance of joint databases and reference material; commissioning of studies or evaluations, and the convening of meetings for privatization agency heads to discuss and debate issues related to privatization.

31. UNIDO is currently in the process of formulating a project document in this connection. Expected outputs are the organization of a regional technical workshop and assistance to APN in the publication of a privatization newsletter.

32. In addition to APN, UNIDO is currently organizing a private sector forum for Africa. Industrial development in Africa is not only a concern of the public sector; to a greater extent, it is a concern of the private sector. Meetings during which the future of any industrial strategy for Africa is discussed, such as meetings of the Conference of African Ministers of Industry (CAMI), cannot ignore the crucial role that the private sector plays, and thus should include participation of representatives of the private sector. The constraints to private sector development have been, among others, the lack of involvement of private sector actors in the shaping of industrial or economic strategies for the continent.

33. The forum will concentrate on making the private sector a part of regional decision-making and is fully in line with UNIDO's overall endeavour to promote partnerships between public and private sector entities from both African and non-African countries.

34. In cooperation with the African Business Round Table, the West African Enterprise Network and the African Federation of Women Entrepreneurs, UNIDO invited 25 African businesswomen and men representing small-, medium- and large-scale enterprises to attend the forum. Conclusions of this meeting will be presented to the African Ministers of Industry during the thirteenth session of CAMI. The Forum will furthermore be coordinated with the current activities of the UNIDO International Business Advisory Council.

35. The outcome of the Forum is expected to be an enhanced public-private partnership in Africa and the inclusion of the private sector as a group in regional decision-making processes.

V. WORKSHOPS

36. In developing a competitive and sustainable private sector in countries that have hitherto been dominated in many ways by the public sector, a meaningful dialogue between the public and the private sectors is crucial. To introduce ways and means to carry out such a dialogue, UNIDO held training workshops in Ghana, Kenya, Sierra Leone and Uganda.

37. In Latin America, a strong interest exists in the lessons to be learned from the industrial successes of the East Asian countries, especially the Republic of Korea. Recognizing this, UNIDO organized a series of workshops and seminars where the industrialization experiences of South-East Asia, Latin America and the Organization for Economic Cooperation and Development (OECD) countries were compared and discussed. In Uruguay, a team of Korean, Chilean and Spanish experts participated in a seminar organized to promote an effective dialogue between the Uruguayan Ministry of Industry, Energy and Mines and the private sector. In Peru, public and private policy makers from 16 Latin American countries took part in a four-day conference on the industrialization strategy of the Republic of Korea, organized by UNIDO together with the Korean International Cooperation Agency. In Mexico, the private sector national federation of industries (CONCAMIN) requested UNIDO to make presentations at its annual meeting on comparative industrialization experiences.

VI. MANAGEMENT TRAINING

38. Strengthening the capacity of public and private sector institutions and enterprises demands that managers have access to appropriate management tools and techniques necessary to ensure the sustainable growth of an organization. UNIDO responds to management training needs of its client countries at the regional and country level and addresses specific management issues relevant at the branch level, including significant gender-specific challenges.

39. UNIDO is involved in support to management training. To improve and upgrade the technical and

management competence of entrepreneurs in the Democratic People's Republic of Korea, UNIDO established the first business school in the country. The Rajing Business Institute will deliver basic skills development activities in business, finance and management covered under courses in 12 different technical areas. Training for managers from industrial firms has been conducted under the UNIDO regional projects in Azerbaijan and the Russian Federation (Kaliningrad). Without such training it often is very difficult for such managers from countries with economies in transition to adapt quickly enough to the demands of a competitive, private market.

VII. ACTION REQUIRED OF THE BOARD

40. The Board may wish to take note of the information provided in the present document.